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Internal Revenue Service

Department of the Treasury

Washington, DC 20224

▷ Index No. 174.05-01

Contact Person:

Telephone Number:

In Reference to:

CC:DOM:IT&A:09-PLR-113787-98

Date:

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Dear

This is in reference to a request filed on behalf of X (the taxpayer) for permission to change to the deferred expense method of deducting the research and experimental expenditures relating to the development of the projects listed above pursuant to the provisions of § 174(a)(3) of the Internal Revenue Code, beginning with the tax year ended June 30, 1998 (year of change).

It is represented that the taxpayer is currently expensing research and experimental expenditures as incurred. The change in accounting method will apply only to the research and experimental expenditures paid or incurred by the taxpayer on or after the first day of the year of change, in accordance with § 1.174-3(a) of the Income Tax Regulations. The amortization period will be 60 months.

Permission is hereby granted the taxpayer, pursuant to the facts presented, to change to the deferred expense method of deducting research and experimental expenditures relating to the development of the projects listed above, paid or incurred on or after the first day of the year of change, and to amortize the expenditures over a period of 60 months, beginning with the year of change, provided:

- (1) the taxpayer keeps its books and records for the year of change (provided they are not closed for that year on the date it receives this letter) and for later taxable years on the method of accounting granted in this letter. For purposes of this condition, any reconciliation entries that are necessary to compute taxable income must be maintained as part of the taxpayer's permanent books and records.
- (2) the taxpayer makes an accounting segregation on its books and records of the research or experimental expenditures to which the change in method applies.
- (3) the taxpayer uses the method granted in this letter for the year of change and all later tax years unless the taxpayer secures permission to change to another recognized method.
- (4) the amortization period elected begins with the month in which the taxpayer first realizes benefit from the expenditures incurred pursuant to § 1.174-4(a)(3).
- (5) if the deferred expenditures result in the development of depreciable property, deductions for the unrecovered expenditures, beginning with the time the asset becomes depreciable in character, shall be determined under § 167, pursuant to § 1.174-4(a)(4).
- (6) the taxpayer attaches a copy of this letter to its tax return for the year of change as evidence of its authority for making the change.

In connection with the permission granted herein, it should be understood that the responsibility for making the determination as to whether the expenditures paid or incurred by the taxpayer in connection with the taxpayer's trade or business are research and experimental expenditures, within the meaning of § 174, is a matter to be considered by the district director upon examination of the taxpayer's return.

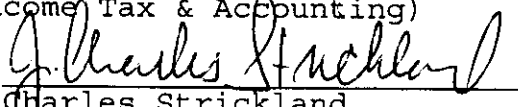
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In no event shall any absorption of a net operating loss carryover from tax years ending before the beginning of the year of change be any greater in the year of change or later tax years under the proposed method of accounting than if the proposed change had not been effected.

This ruling is directed only to the taxpayer who requested it. Section 6110(j)(3) provides that it may not be used or cited as precedent.

Sincerely yours,

Assistant Chief Counsel  
(Income Tax & Accounting)

By   
J. Charles Strickland  
Chief, Branch 9